

Message Text

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PAGE 01 BERN 03928 220944Z

16

ACTION EB-06

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FM AMEMBASSY BERN

TO SECSTATE WASHDC 9727

INFO AMEMBASSY BONN

AMEMBASSY LONDON

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AMEMBASSY ROME

USMISSION EC BRUSSELS

USMISSION OECD PARIS

AMCONSUL ZURICH

UNCLAS BERN 3928

E.O. 11652: N/A

TAGS: EFIN, SZ

SUBJECT: SWISS LIFT INTEREST BAN ON FOREIGN DEPOSITS

1. EFFECTIVE OCTOBER 21 BAN ON INTEREST PAYMENTS ON NONRESIDENT SWISS FRANC DEPOSITS LIFTED. PROHIBITION ON INTEREST PAYMENTS WAS INTRODUCED IN JULY 1972 AS PART OF A SYSTEM OF CAPITAL CONTROLS DESIGNED TO PROTECT SWITZERLAND AGAINST MASSIVE INFLOWS OF SPECULATIVE CAPITAL. UNTIL OCTOBER 1973 NEGATIVE CHARGE WAS IMPOSED ON FOREIGN ACCOUNTS.

2. FEDERAL COUNCIL DECIDED TO ALLOW INTEREST TO BE PAID IN LIGHT OF CALMER CONDITIONS NOW PREVAILING ON FOREIGN EXCHANGE MARKET AND STABILIZED DOMESTIC MONEY SUPPLY. WITH ONE EXCEPTION, SYSTEM OF CAPITAL CONTROLS HAS NOW BEEN DISMANTLED. ONLY REMAINING RESTRICTION IS UNCLASSIFIED

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PAGE 02 BERN 03928 220944Z

REQUIREMENT THAT SWISS RESIDENTS AND FIRMS MAY NOT OBTAIN

FOREIGN LOANS WITHOUT PRIOR PERMISSION FROM SWISS NATIONAL BANK (SNB).

3. SNB OFFICIAL TOLD EMBOFF THAT NO LARGE INFLOW OF FOREIGN FUNDS EXPECTED AS RESULT LIFTING OF INTEREST BAN. WITH BANKS PAYING ONLY 6-7 PERCENT P.A. ON SHORT-TERM SWISS FRANC TIME DEPOSITS AND 8-10 PERCENT P.A. AVAILABLE IN SHORT-TERM SWISS FRANC EUROMARKET NOTES, INVESTORS WILL HAVE TO FOREGO HIGHER RETURN ELSEWHERE FOR SECURITY OF HOLDING DEPOSITS WITH SWISS BANKS.

4. OCTOBER 16 ANNOUNCEMENT THAT BAN WOULD BE LIFTED CONTRIBUTED TO MODEST STRENGTHENING OF SWISS FRANC IN FOREIGN EXCHANGE MARKETS. SPOT DOLLAR SLIPPED FROM SF 2.9080/2.9110 AT OPENING ON OCTOBER 16 TO SF 2.8860/2.8890 AT OCTOBER 18 CLOSE (I.E., SWISS FRANC GAINED 0.8 PERCENT AGAINST DOLLAR). TRADING, HOWEVER, WAS QUIET AND TURNOVER NORMAL. SNB SOURCES HAVE NOTED ONE CURRENT RUMOR IS THAT SOME MIDDLE EASTERN INVESTORS HAVE SHOWN NEW INTEREST IN SWITZERLAND IN LAST FEW DAYS.

5. DECISION RE INTEREST PAYMENTS ON FOREIGN ACCOUNTS WAS TAKEN WITHIN BROAD FRAMEWORK OF CURRENT SWISS FINANCIAL SITUATION. SNB OFFICIALS CONTINUE STRESS PRIORITY WHICH IS BEING GIVEN TO SLOWING INFLATION IN ALL SUCH ECONOMIC POLICY DECISIONS. SNB IS APPARENTLY DETERMINED KEEP MONETARY POLICY UNDER CONTINUED TIGHT REIN. SNB AND PRIVATE BANKERS ARE ENCOURAGED THAT FINANCE MINISTER CHEVALLAZ HAS SHOWN FIRM RESOLVE USE FISCAL POLICY TOWARD SAME END TO EXTENT POSSIBLE. THIS IS TO BE ACCOMPLISHED BY INCREASED DIRECT AND INDIRECT TAXES (WHICH ARE IN EFFECT BUT MUST BE APPROVED IN NATIONAL REFERENDUM DECEMBER 8), INCREASED TAXES ON HEATING OIL AND GASOLINE (WHICH WILL PROBABLY ALSO REQUIRE REFERENDUM APPROVAL IN 1975), AND EFFORTS RESTRAIN SPENDING (PARTICULARLY BY PERSONNEL FREEZE, CLOSER SCRUTINY OF NEW PROJECTS, ETC.). CONSUMER PRICE INDEX FOR SEPTEMBER UP 11.3 PERCENT OVER 12 MONTHS BUT SNB OFFICIALS PREDICT SOME DECLINE IN RATE LATER THIS WINTER PARTLY FOR STATISTICAL REASONS AND PARTLY BECAUSE MUCH OF OIL AND UNCLASSIFIED

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PAGE 03 BERN 03928 220944Z

RAW MATERIAL PRICE INCREASES LARGELY HAVE WORKED THROUGH SYSTEM. POTENTIAL FOREIGN DEPOSITORS IN SWISS BANKS THUS WILL BE WATCHING INTER ALIA SUCH FACTORS AS INFLATION RATE AND RESULTS OF TAX REFERENDA. THEY PRESUMABLY ALSO HAVE BEEN HEARTENED BY CLEAR REJECTION BY SWISS POPULACE IN OCTOBER 20 REFERENDUM OF PROPOSAL TO REDUCE SHARPLY NUMBER OF FOREIGN WORKERS, ACTION WHICH WOULD HAVE HAD GRAVE EFFECT ON ECONOMY OF SWITZERLAND.

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